Group 17
EastWest Institute

Volume 1 October 2000 Issue 10

economic
Review

What Foreigners Will Not Do

Changes, which were above all peaceful, have somehow caught us by surprise as everything happened so fast and unexpectedly. Even before the bulldozers went back to their sites, various "fact-finding missions" of foreigners were arriving. Along with them there were words of millions or billions of dollars, euros, German marks waiting on our borders to enter the country with all respects. Notwithstanding that all sorts of foreign aid, including humanitarian and long-term financial support, will play a key role in the quick return of the FRY into the world economy, it is us who can help this country the most.

As of the writing of this editorial (1 November 2000) the Federal Government has not been constituted yet, which is a basic precondition for the beginning of one huge and, in the short run, ungrateful task - the creation of a legislative foundation for the functioning of a market economy. The main issue is whether this process would take a year or 3-4 years. Amongst all shortfalls this country encounters, the most acute is the lack of time. The changes have elevated certain expectations in respect to the future standard of living, but the problem is how fast those pre-election promises can be realized. Damocles' sword of the Serbian parliamentary elections, scheduled for 23 December (only seven weeks from now) hangs over this process.

FRY [a] Basic Economic Indicators	1999	1999 1998	IX 2000	IX 2000 VIII 2000	IX 2000 IX 1999	I-IX 2000 I-IX 1999
Industrial Production	...	-24.1%	...	2.9%	8.9%	18.8%
Montenegro	...	-7.6%	...	7.2%	8.1%	1.1%
Serbia	...	-25.6%	...	2.6%	8.9%	20.2%
Central Serbia	...	-24.5%	...	1.3%	9.9%	22.0%
Vojvodina	...	-28.2%	...	7.8%	6.8%	16.5%
Average Wage - DM	107	-31.7%	...	...	...	...
Montenegro	154	-14.1%	...	...	...	...
Serbia	102	-33.8%	84	-7.4%	-14.6%	-22.0%
Unemployment Rate [b]	27.3%	8.3%	28.8%	...	...	...
Montenegro	36.8%	7.9%	40.6%	...	...	...
Serbia	26.5%	8.2%	27.8%	...	...	...
Export - USD million	1,498	-46.9%	146	1.0%	11.5%	18.4%
Montenegro	123	-4.7%	7	-19.2%	-35.0%	34.4%
Serbia	1,375	-48.9%	139	2.5%	16.0%	16.8%
Import - USD million	3,296	-30.3%	246	-12.9%	-21.7%	24.3%
Montenegro	358	6.9%	10	-56.7%	-68.0%	-3.1%
Serbia	2,938	-33.2%	235	-8.3%	-16.1%	29.7%
Monetary supply (M1), end of period, DIN billion	16.4	51.9%	23.8	0.8%	64.6%	57.5%
Cash	6.7	34.0%	9.1	17.0%	58.9%	35.2%
Deposits	9.7	67.2%	14.7	-7.1%	68.3%	73.0%
Real money supply, end of period, DM million	739	-42.3%	720	-10.9%	-25.5%	-35.5%
Market exchange rate, monthly level	4.25%	-38.8%	6.52%	0.0%	43.6%	35.4%
Retail prices	...	42.4%	...	8.5%	70.1%	61.5%
Montenegro	...	60.1%	...	...	...	...
Serbia	...	41.1%	...	7.7%	61.8%	55.8%
Cost of living	...	44.9%	...	12.3%	92.1%	71.6%
Montenegro	...	67.2%	...	...	...	...
Serbia	...	43.5%	...	11.7%	83.8%	65.2%
Industrial prices	...	44.2%	...	6.3%	102.1%	96.9%
Montenegro	...	63.7%	...	...	...	...
Serbia	...	43.2%	...	5.8%	95.6%	92.6%
Black market exchange rate (din/DM)	12.6	88.1%	30.78	15.4%	127.4%	124.0%

[a] GDP for 1999 was 14,224 million USD, GDP per capita was 1,699 USD, GDP annual growth rate in 1999 was 19.3%, GDP annual growth per capita in 1999 was -19.1% (G17 estimate based on official data of the Federal Statistics Bureau)

[b] Unemployment rate refers to August.

In this issue:

Prioritize for efficiency and efficacy

What can be/should be done in next weeks and months, or, what is the division of labor between "them" who offer assistance and "us" who expect that assistance? In addition to almost daily "fire fighting", the major goal of the newly elected government should be the establishment of a legal environment for the conduct of economic reforms. For the sake of efficiency and efficacy, setting priorities is a first step. Some issues will have to be postponed for the moment – e.g. the rehabilitation of the banking system, which is crucial for any improvement of economic relations within the country, but can wait for several months. However, without some fundamental laws, such as the law on property transformation, the law on regulating creditor/debtor relationships, the law on privatization, the law on capital market, etc., foreign capital will continue to bypass our country. International institutions will offer their experience from other countries in transition and technical assistance, but eventually everything is in the hands of the Federal Parliament that ought to pass the key laws urgently.

Importantly, decisions are worthwhile only if implemented in practice. Establishing the rule of law will be a long and painstaking process, primarily due to the distorted system of values formed in this society in the last decade. Although the laws have hitherto been brought on the basis of Western European countries' experience, their implementation in practice was an illusion. Corruption at all levels of society has become an integral component of life in the FRY. Achieving some visible results in a short period of time will be very difficult, not only because of the inability to adequately award the key persons, but also because of a lack of a critical mass among people to the achieve this process at all. Finally, everything is reduced to a psychological effect of the people's faith that the system is fair and that the rules are being applied to everyone equally.

With regard to foreign capital, potential investors are willing to come to our market even without major economic concessions, but will not come in large numbers without legal security for investments. Foreign capital moves around the world on the basis of risks and prospects for profit, but it has its own rules of the game, which assume an environment of laws and guarantees. Regardless of the stabilized exchange rate, high interest rates on short-term investments indicate that the FRY market remains unstable for foreign investments.

We must make decisions ourselves

Lessons from other countries prove that foreigners play a key role in the transition of an economic system towards a market economy, but we are those who should implement the legal basis for a rehabilitation of the economy. The rehabilitation of the banking sector has been very much on the agenda, but serious measures have still not been undertaken. Reforms should include a carefully packaged program to clear non-performing loans from the balances of the largest banks perhaps through a debt for equity swap, the regulation of property relations, etc. But all of this requires a legal basis. Without first establishing this basis any further reforms or subsidies of the banking system, no matter how small, are utterly irresponsible.

The greatest responsibility in this transitional period rests with the Federal Parliament. It will decide on the pace of reforms. Expectations of the population and pressure on the not yet formed government will be high, partially because of pre-electoral promises and also because of the announced foreign assistance. Foreigners do offer their assistance but the decisions are ours. Good luck to all of us!

Status of the Urban Water System

Approaching Europe is, above all, a formal, time-limited procedure, which in the water sector implies getting acquainted with the current legal framework of united Europe with regard to waters, as well as an objective insight into the state of our own water industry, communal hydrotechnology and laws on water supply and regulation.

Present state of communal hydrotechnology

Management of water in our towns falls under the jurisdiction of local authorities as part of their communal activities, which are simply and generally recognized as the water supply and sewer system. The water industry that is managed at the republic level is scarce in towns. Communal companies, being the holders of communal hydrotechnology, remained unchanged over the past decades in the sense of both their organization and social status, and they did not yet begin the changes that are unavoidable in the transition from state socialism to market economy. The state of communal hydrotechnology can be described as follows:

The status quo is unsustainable

- communal companies are not self-sustainable since their services were and remain in the domain of social services,
- financial means collected from water consumption, and specific local contributions that citizens pay for solving problems with water, are usually spent unrestrictedly, while lacking means are obtained from local centers of finance such as local governments and urban development bureaus, thus adding to an extreme politization of the whole process,
- the price of services enables minimal maintenance, there is no renewal of outdated equipment since funds for repair and replacement are pure fiction in public communal companies (repair funds amount to 30% of total planned costs in calculating the price of water, but the price of water is, by rule, approved at a significantly lower level),
- communal companies are overly employed,
- updated, publicly verified, planned documents for communal infrastructure system development over a period of 20 years are scarce, which influences the irrational use of already limited financial resources,
- the problem of illegal connections is not being solved through severe penalties by communal inspections,
- urban water has not been under the jurisdiction of local authorities since 1996, when decision-making shifted to the republic of Serbia level after local elections,
- the former distinction of communal functions such as water supply, sewage, flood protection, water source protection, water quality protection, protection from land erosion, city sanitation, communal dumps, etc, does not correspond to the contemporary integral concept of management,
- communal hydrotechnological problems relate both conditionally and consequentially to the gravest problem in our towns - unlawful and uncontrolled urbanization (e.g., garbage dumps can be found in the wider vicinity of sanitary water source protection, people learn that they inhabit a floodplain after floods happen, towns are more frequently flooded by heavy local rainfall, not only by seasonal or regional precipitation, construction areas and sites are unprotected so that land erosion during rainfall threatens to clog the town sewer, streams through towns frequently become garbage dumps, etc.).

Research conducted by competent republican ministries in 1995 showed that the quality of water supplied by the plumbing system is not satisfactory. With regard to physical and chemical indicators, the quality of water is far worse than its bacteriological state. Underground waters are by rule treated only with chlorine in our country (with a possible elimination of iron), meaning that the neglect of serious polluters represents a great threat to the population's health. The same evaluation was given by a UNICEF mission that visited Serbia last spring.

Apart from the mentioned problems of infrastructure maintenance, management and sanitary control of water quality, great problems exist in the domain of planning new major facilities.

A lack of systematic measurements

Basic planning indicators in the field of water supply, specific water consumption (daily water consumption per user) is not determined on the basis of measuring water consumption, but upon estimates based on planned norms from past times of irresponsible planning. There are no reliable data for determining industrial needs for water either. Estimates on the irregularity of consumption are instead determined on the basis of data from foreign literature. Water production in communal companies is planned by an agreed increase of estimated water consumption by an "acceptable" amount of physical losses of water. However, data on the number and types of failures in our towns' distributive networks show that physical losses are considerably larger than the agreed "acceptable" amounts mentioned earlier on.

With regard to channeling of used water, the production of sanitary wastewater is estimated as a percentage of used potable water. Here there are no measurements to confirm estimates either. The industry conceals data on production of wastewater because the people responsible are afraid that large fines for releasing untreated wastewater will arrive after this kind of data is publicized. Hence estimates are usually derived from written sources, depending upon the type and capacity of technological process.

In the lack of systematic measurements in water supply and sewer systems, planning engineers uncritically accept exaggerated norms of water consumption, assuming that excess can do no harm. Consequences of this practice were negative in most cases:

- major pipelines for potable water transport are oversized, affecting the deterioration of sanitary conditions in pipelines since the flow slows down and disinfectants lose effect,
- installations for preparing potable water are oversized, which does not have a negative effect on their work, but decreases economy of the enterprise since financial means for production capacities to be activated in the distant future are being spent,
- major collectors of used water are oversized, causing deterioration of hydraulic flowing conditions and a decrease of speed below the value that enables self-rinsing of dirt deposits, thus increasing maintenance costs,
- installations for wastewater treatment are oversized and have an unfavorable effect on the biological part of the process, rather than the mechanical part of treatment, due to specific characteristics of biological aeration as the most frequently applied process for treating used water.

Poorly organized drainage of precipitation

As for drainage of atmospheric precipitation from town territory, the level of acceptable risk is determined without analysis of possible damage from flooding in towns. Towns are usually satisfied with a two-year survey of rainfall for determining the dimensions of their drainage systems, and apply this criterion evenly over the whole territory they cover. All atmospheric water that exceeds the expected two-year level and fails to drain through either subterranean or ground level systems is regarded as force majeure, whose consequences are seldom made known to the public. Property insurance from flooding by subterranean waters is not based on market principles because our towns do not have analyses of flooding, or corresponding risk zones. Finally, because of numerous garbage dumps in our towns, and the uncontrolled use of chemical agrarian measures in suburban areas, the problem of scattered sources of water pollution is no longer neglectable.

Communal services are not aware of the fact that a special treatment of torrents, town streams, unprotected slopes and open construction sites could prevent sewer congestion by eroded material, which is often the main communal problem in many of our towns.

Our water legislation

The area of urban waters is covered, in the widest sense, by five laws in the Republic of Serbia: the Law on Waters (1991), Law on Space and Settlement Planning (1995), Law on Facility Construction (1995), Law on Communal Activities (1997), and the Law on Environment Protection (1991).

According to the Law on Waters, hydroindustrial facilities from the domain of urban waters encompass the following:

- facilities for protection from water-inflicted damage (systems for draining rainfall and facilities for protection from erosion)
- facilities for use of water (major pipelines, pumping stations, reservoirs, installations for potable water preparation)
- facilities for water protection (main collectors and facilities for wastewater treatment).

Vague status of law and property

There are no street water supply and sewer networks, or corresponding devices (flow counters, pressure regulators) on the list of water industry facilities.

The existing state of management over water industry facilities is characterized by the vague, unregulated, and uneven status of law and property. Natural resources, that include water resources, are state property according to the FRY Constitution. According to the Republic of Serbia Constitution, natural resources and goods in public use, as well as goods of public interest, are either state or social property. Most appropriate to the needs of contemporary society, based on market laws, is a property concept in which the state appears not as the owner, but as the custodian that manages natural resources in the interest of all citizens.

By passing the Law on Waters, facilities of the water industry should have been transferred from social to state ownership, and taken over by public water industry companies (JVP). This did not take place. Communal hydrotechnical facilities remained under the control of public communal companies (JKP), while between the JVP and JKP there is almost no cooperation since it is not anticipated by the laws in force.

The pluralism of ownership that was introduced requires a definition in terms of space and function, and a division of water industry facilities. It is necessary to establish the use that specific consumers, or groups of consumers, have in order to establish their financial obligation for use of the industrial facility. It is inadmissible that everyone pays and only few benefit. This should be applied when deciding upon the construction of new facilities, which would mean, for example, that citizens belonging to one sewer basin should not participate in financing a physically and functionally separate sewer basin. The situation in Serbia today is exactly the opposite.

An institutional system of water management does not exist since everything has been taken over by the state, which has become the exclusive interpreter of both public and private interests in the domain of water industry through its executive organ (government). This is a model that is disappearing from Europe, with the departure of state socialism from the historical scene. The general conclusion is that the Constitution of Serbia and the Law on Waters are not reconciled with the FRY Constitution and that their concept is surpassed.

European water legislation

Water problems in Europe fall under the concern for human environment. Water is one of the most inclusive fields of European legislature. The basic goals of caring about waters are as follows:

a) protection and improvement of conditions in aquatic ecosystems and other water-dependant ecosystems,
b) promotion of sustainable use of water,
c) protection of sea water,
d) mitigation of flood and draught consequences,
e) decrease of dangerous substances' discharge.

The basis of an integral policy of water management in the European Union consists of water management by basins, along with applying the mentioned horizontal regulations, regulations on water, and a series of related regulations that are "under the umbrella" of human environment protection legislation, but do not directly concern waters.

Which way to go?

Urban waters are considered to be non-profit communal activities in our country. Their basic goal is to achieve quality, stability and long lasting service. Economic sustenance and restoration abilities of communal systems were badly tended to in the past. Although communal hydrotechnical systems solved complex technical problems with relative success in the past century, they used to pay the price of success themselves. They are in an unenviable state today, after having steadily deteriorated over the past decade.

On the other hand, European urban water supply systems have become especially profitable in the past ten years. The business appeal of this kind of enterprise resides in the fact that it has a half-monopolist status and a steady inflow of large cash amounts, which has outstanding significance in today's world of plastic money. Communal hydrotechnical systems in the world are becoming independent because they have been given a legal right to be financially self-sustainable.

The preconditions of economic self-sustenance

To the end of achieving the economic self-sustenance of a communal hydrotechnical system, it is necessary to undertake a series of preparatory operations in both the system itself and its surroundings. This primarily applies to repairs of damaged and aged facilities in order to cut down losses, along with a simultaneous application of systematic measurements of production, consumption and wastewater output to the end of achieving reliable balances and conditions for collecting payments for services provided. Besides solving technical reparation problems, it is necessary to improve management, particularly regarding the settlement of accounts and services' payments. For example, in the public communal company "Beogradski vodovod i kanalizacija" from Belgrade, only 53 dinars are collected from each 100 dinars worth of services. The rest are losses - physical (leakage), invoicing losses (illegal connections, subsidized consumers whose expenses remain uncompensated, small enterprises that pay the price of water for households, unrestricted consumption, etc.), and losses during payment collection (legal system inefficiency).

"water pays water"

The principle of economic self-sustenance, known as the "water pays water" concept, would be possible to achieve only when a rational connection between service and service compensation is established, which, in the case of urban waters, amounts to the following:

- potable water is paid in proportion to the actually consumed amount, not according to consumption norms. The main forms of payment collection that are used in the world are by flat rate (collecting does not depend upon consumption), by payment collection in proportion to consumption, by the so-called "block" tariffs (price rises for excessive consumption), and by a combined tariff (flat rate combined with "block" tariff). Under the present circumstances, a combined type of payment collection consisting of two parts would make sense: (a) a fixed monthly compensation based on the size of a specific water meter, which serves to cover expenses of the water meter readout, payment collection and maintenance, i.e. water meter replacement, and (b) a variable monthly compensation determined by the amount of consumed water. The price of water should be different in winter and summertime. There is sense in households paying a lower tariff during the summer, providing that consumption stays below a certain level.
- drainage of used water is paid in proportion to potable water consumption, under the condition that its quality reaches the level permitted for release into the city sewer system. In the opposite case, large surtaxes are paid. It would not be improbable to have larger prices for sewer services than water supply.
- precipitation drainage is paid according to the contribution of each city block to the increase of total surface drainage of water, as compared to a natural, unurbanized state.
- flood protection from waters that do not enter the city sewer system is paid from insurance policy.

There is no doubt that communal hydrotechnical systems in our large cities will have to solve their problems with the help of financial means from abroad. The arrival of foreign strategic partners is certain and unavoidable, especially since representatives of large European financial-technical-management groups have already appeared in our towns. For the forthcoming period it would be necessary to conduct serious preparations and perceive possible forms of cooperation. Three basic forms of cooperation between private and public property are known in Europe today. Namely, when: a) basic means remain in public property, and a system operator from public property is employed, b) basic means remain in public property, and a private system operator is employed, and when c) basic means pass into private property, and a private system operator is employed.

Repair first, then invest into development

In our circumstances it can be expected that cooperation of the "public property and private operator" type will be proposed, within which various forms of contracts are anticipated, i.e. franchises (leases), concessions, the BOT model, the contract on results, contract on management, and contract on services.

The moment of strategic partner choice should be well prepared, meaning that most of today's problems should be overcome. Our communal systems have problems of both objective and subjective nature. The general ones concern physical losses of water and dilapidation of outdated facilities and equipment. On the other hand, subjective problems can be solved by relying on our own forces and do not require extensive financial investments. The ability to solve them depends on political (institutional) and organizational changes, as much as upon a change of our habits. Water must be considered as a commodity that has its price and must be protected at a certain cost.

The experience of neighboring countries shows that in transitional periods, like the one in which we are living, significant financial assistance can be expected for repairing communal systems, and that investment into development and expanding capacities comes subsequently. To that end it is necessary to start an elaboration of reparation programs concerning infrastructure and business management alike, in order to avoid being unprepared and having to offer only healthy segments of our communal systems to future strategic partners, or only those segments that have considerable commercial value.

Institutional transformation must begin as soon as possible, with relation to the fact that the contemporary urban water supply industry requires transformation of communal hydrotechnology, which includes, besides water supply and sanitation, an essential concern for the protection of cities from flooding and water-induced pollution, for the protection of water supply sources, quality of water, re-usage of water, protection from land erosion, and the management of water as part of the urban environment, according to the principle of water representing an urban resource rather than an obstacle. By broadening the activities of existing communal companies, a surplus of labor that burdens their work at present could be activated, and part of the obligations taken over that used to be met by the republican water industry, if only on paper. Urban water supply industry is a problem of local governance that requires a change of existing legal regulations, which would, in turn, serve to achieve the institutional reinforcement of local self-rule.

MACROECONOMIC REVIEW

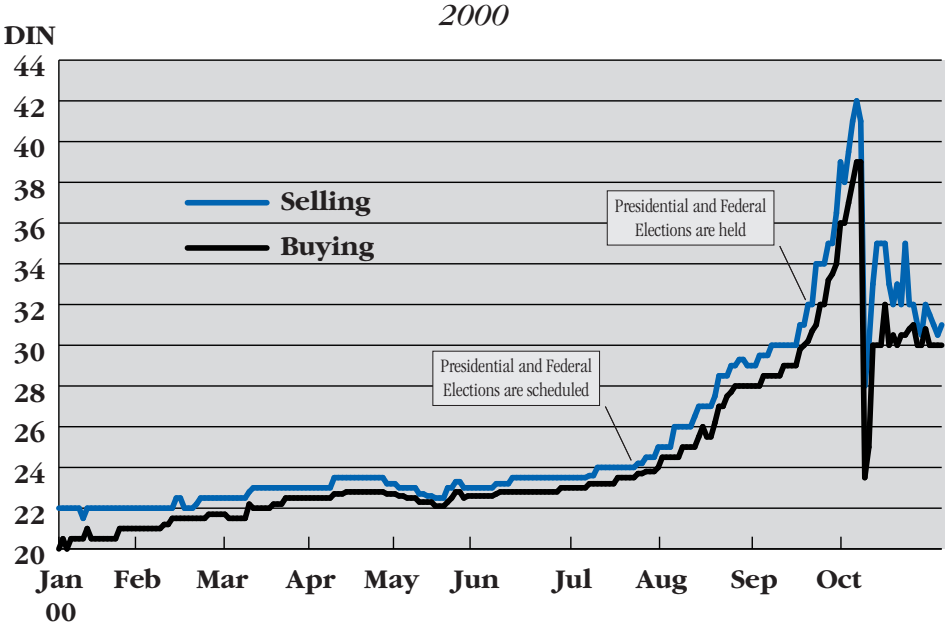
Prices

Price movements have drawn the most serious attention recently. Measured by the official retail price index, annual inflation in Serbia (September 2000/September 1999) amounted to 70.1%. Measured by the cost of living index, prices were up 83.8%. The September growth of living costs in Serbia amounted to 11.7%, while retail prices marked growth of 7.7%. Price growth was, above all, pushed by the rising cost of agricultural and food products – 22.5% and 14.3% in September, respectively. The growth of prices for industrial products was 6.3%, while the prices of consumer goods were up by 9.5% and the prices of raw materials rose by 3.6%. Data on price fluctuations in industrial products frequently serve as an announcement of oncoming events, but reliable forecasts require knowledge of the exact level of repressed inflation.

The key events regarding prices occurred at the beginning of October. Although the history of price control is much older, a series of regulations that were issued in 1995 put a large number of goods and services under price control. Simultaneously, the Republican Government abolished the decree on measures for preventing and eliminating disturbances on the market caused by monopolist abuse. The political reasons for this decision aside, instead of gradual liberalization, companies took advantage of the period where no one questioned their responsibility as they set prices much higher than the regulated rate.

To date it was common that fluctuations of prices under direct or indirect regulation over leapt changes, while freed prices were consistently crawling. Due to a preelectoral defense of real purchasing power, for reasons mentioned in the previous issue, the latest advances in prices did not display themselves in August. In September, most prices followed foreign exchange rate fluctuations, up to the point where the dinar had bottomed out in its depreciation, after which prices demonstrated great rigidity. The lack of flexibility in demand for certain goods is influencing the attempts of producers to cover at least part of their losses from the former period.

Fluctuations of the Black Market Foreign Currency Exchange Rate, 2000



Industrial production

The deseasoned index of industrial production shows a fall of 3.2% in September, month-on-month. This means that September's production growth was influenced by seasonal factors and that our industry has basically continued the recessive tendency exhibited in previous months. The deseasoned index for August showed a fall of 0.6% relative to July.

In view of this, we get a clearer picture of growth rates in Montenegro (7.2%) and Serbia (2.6%). September growth amounted to 1.3% in central Serbia and 7.8% in Vojvodina. Production increased in September when compared to August in five sectors: textile, leather and rubber production (30.3%), the lumber industry (8.4%), the chemical and paper industry (8.3%), other non specified industries (8.2%), and the electric power and metal-processing industry (0.5%). Production was down in four sectors: metallurgy (6.8%), non-metals and construction material (3.5%), the power industry (3.3%), and the food and tobacco industry (1.1%).

Industrial production in the FRY in September 2000 is 8.9% larger than in same month last year. In Central Serbia production increased by 9.9%, and by 6.8% in Vojvodina. Significant changes occurred in sector production as compared to the same month last year. Production increased in 6 sectors, especially in metallurgy (34.5%), and least in the energy sector (6.9%). The latter is a result of the low basis point in September last year, when the consequences of war were still very notable. Necessary imports for the last two months would amount to 520, i.e. 612 GWh.

Industrial production in the FRY in the first nine months of 2000 increased by 18.8% relative to the same period last year. Montenegro marked growth of 1.1%, and Serbia of 20.2%. Production increased in Central Serbia by 22%, and in Vojvodina by 16.5%. These data best reflect the influence of a low basis in the war year of 1999; hence not much importance should be given to data on production growth that is enormous even in terms of the world economy.

Production in all sectors demonstrates growth. The highest growth was registered in non-metals and construction material (43%), while the food and tobacco industry showed only modest growth (4.9%). Production fell in only five sectors: non-ferrous metals' ore production (8.7%), production of fodder (7.9%), iron ore (7.7%), the printing industry (2.6%), and leather and food production (0.9%). Production grew in all other sectors, ranging from 1.3% (oil derivatives' production) to 198.9% (metallurgy).

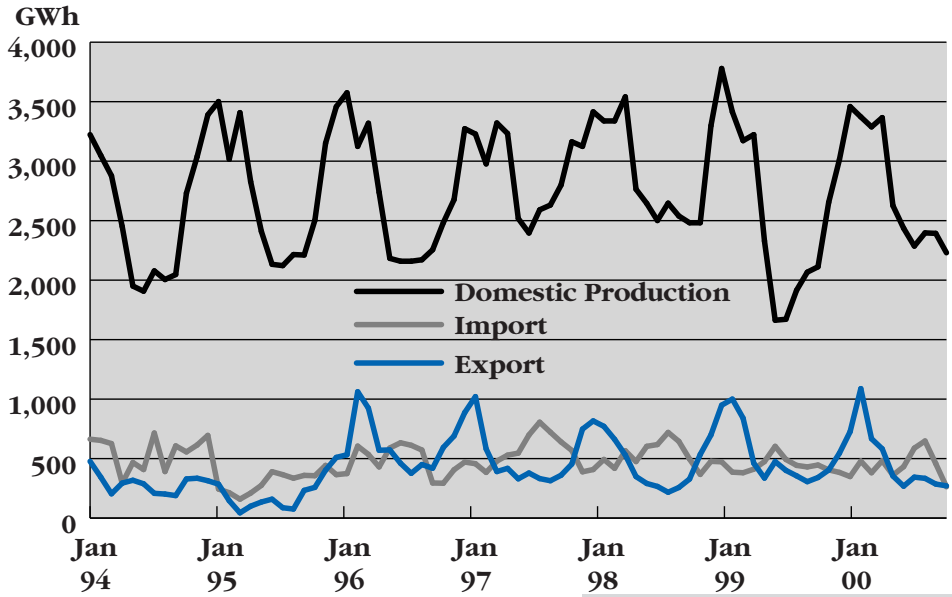
Foreign trade

In the last four months, exports have stabilized at about 140 million USD per month in Serbia. On the other hand, in September import fell slightly to 235 million USD, so that the coverage ratio of imports by exports improved and now comes to 59%. The situation is even more favorable than in September of last year. In the last year, exports increased by 11.5%, and imports have decreased by 21.7%.

This downward import tendency is a temporary and forced phenomenon. The seemingly smaller import dependency is partially the outcome of the initiation of production and processing of oil, and especially of oil derivatives that were not produced in September of last year. The other dominant reason is a shortage of foreign currency for imports. In view of new circumstances, it can be expected that elements of international donations will be used for financing imports of deficient goods, which would certainly lessen the foreign currency disparity. Only imports of electricity and natural gas require more than 100 or 300 million USD respectively in the next quarter. This, however, does not alter facts revealed in previous Reviews on the nature and ways of financing deficits. The deficit on the FRY level for the first nine months of this year amounts to 1,494 million USD (exports 1,289 and imports 2,783 mil. USD).

A solution to foreign exchange rate problems might lead to an improvement of our foreign trade structure. Exporters who have avoid bringing earned foreign currency into the country out of fear that they would have to sell it at an unreal low rate will not have to evade this obligation by buying merchandise abroad. The return of EU trade preferences will also most certainly have a positive influence on exports. However, due to the export structure, level of competitiveness, and a series of other limitations, spectacular results are not to be expected.

Electric Power Production in Serbia



Our foreign trade is diversified with regard to partner countries, and especially with regard to products for imports and exports. According to groups of products, classified by SMTK, the largest part of FRY exports in the January - September 2000 period was in: non-ferrous metals (186.1 mil. USD), clothing (97.2 mil. USD), iron and steel (87.6 mil. USD), fruits and vegetables (87.4 mil USD), grain and grain products (46.9 mil. USD). The main groups of products for imports were: oil and oil derivatives (430 mil. USD), road vehicles (247.5 mil. USD), yarn, fabrics, and textile products (218.9 mil. USD), iron and steel (116 mil. USD), and general use industrial machines (85.9 mil. USD).

Monetary fluctuations and the foreign currency exchange rate

The level of the monetary aggregate (M1) at the end of September amounted to 23.75 billion dinars, while the real money mass amounted to around 720 million DEM. Again the crucial change happened in the structure of money mass, where the level of deposit money was for the first time less than in the previous month, meaning that the total increase was achieved through an increase of cash. The participation of cash rose from 32.8% to 38%. This fluctuation surely relates to fluctuations on the parallel foreign currency market.

The second aspect relates to the conduct of banks that used obligatory reserves during the political election crisis, thus additionally affecting the exchange rate. This is connected to the most important determinant of foreign exchange rate fluctuations - expectations in a country on the verge of civil war. All these factors influenced the overthrow of a balanced foreign currency exchange rate. Subsequently, the opposite happened when control was established over the Payments' Bureau and a sudden overthrow of the exchange rate took place, where a purely technical measure was applied in order to prevent further uncontrolled fluctuations of the exchange rate. After a leap of the foreign currency exchange rate, it was stabilized and new measures have leveled out the so-called stimulative rate, i.e. the official rate, with the black market foreign currency exchange rate.

Alongside the mentioned changes, the fact that monetary policy changes will not allow the government to rely upon money issue for financing expenditure, i.e. creating high voltage money as an alternative to explicit taxation. Total seigniorage during the first eight months of this year only, calculated through the relation between the increase in money mass and the black market exchange rate (not prices, due to their inconsistent follow-up), amounted to 304 million DEM, while direct seigniorage based on the primary issue amounted to 194 million DEM. It is worth mentioning that the largest part was achieved through an inflation tax, while a negligible part came from authentic seigniorage. Nevertheless, we are speaking of a substantial part of the GDP. The first test for the new federal monetary policy was foreign exchange rate stabilization. The second will most certainly be the lowering of short-term market interest rates, as a proof of the new Yugoslav National Bank's credibility.

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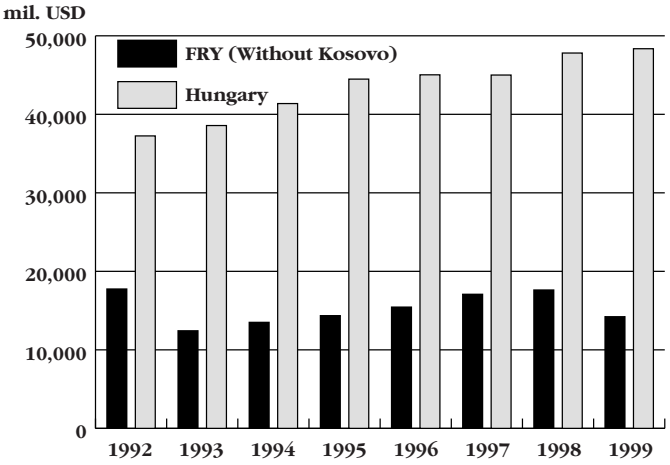
The long awaited return of FRY to the international community, which is occurring in record time, implies the provision of financial assistance from abroad. According to preliminary estimates, the first three months require assistance in energy products of around 767 million DEM worth, and another 249 million DEM worth of goods, while means intended for budget support should amount to around 130 million DEM. Total needs are valued at around 1,146 million DEM. Means will be provided by the EU and bilaterally. During the next few months these means will be put to humanitarian use. The speed of demand meeting supply will have crucial importance because of the low-income level of the population, additionally weakened by soaring prices.

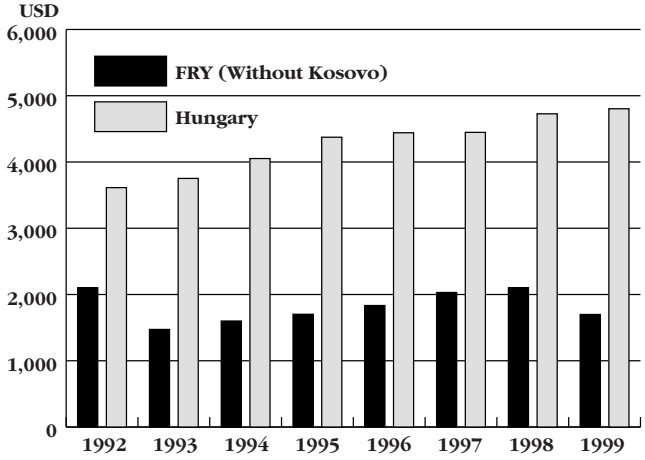
The logic behind the use of donations is simple. If commodity support is provided, goods will be sold at lower than market prices, thus stabilizing market prices and increasing the population's purchasing power, while the profit obtained will go to the budget and be used for financing the most urgent needs.

Yugoslavia in the mirror of Eastern Europe

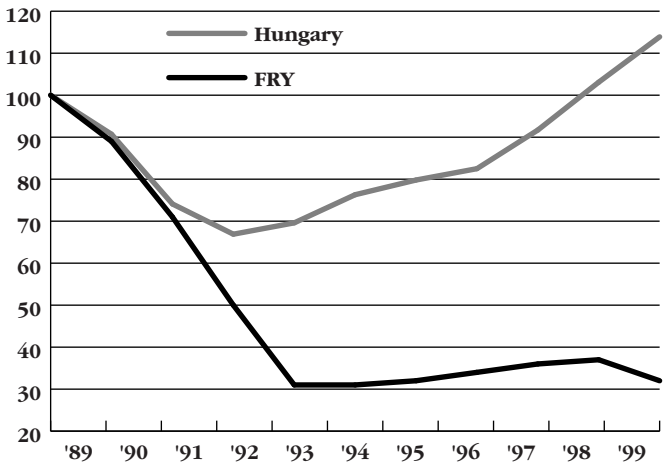
GDP



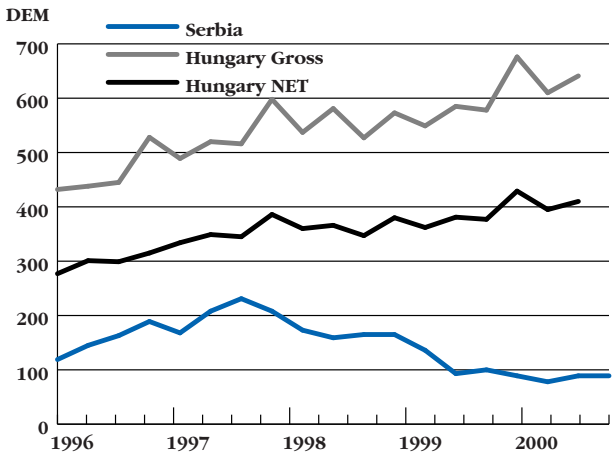
GDP per capita



Industrial Production 1989 = 100



Salaries Quarterly Wage



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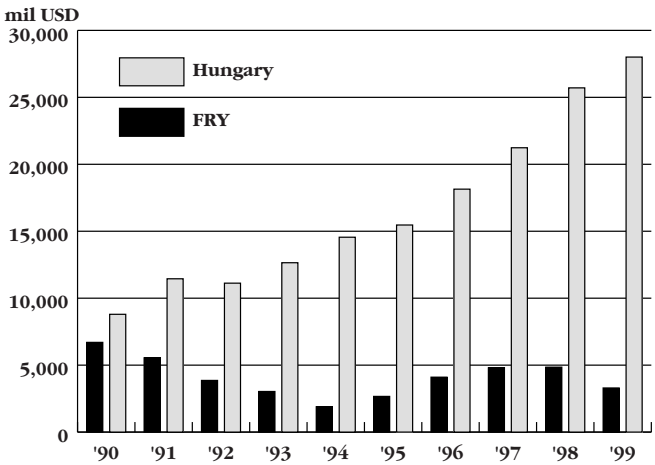
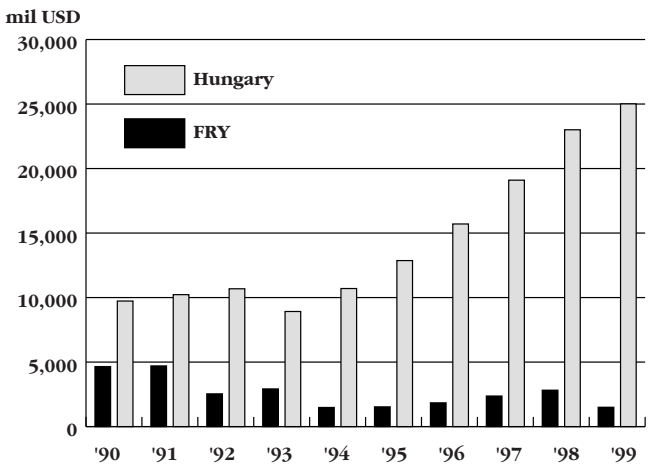


Export



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